

OCTOBER 1, 2024



CHILD CARE RATE REFORM QUARTERLY REPORT

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES

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Introduction

The primary source of federal funding for child care programs is the Child Care and Development Fund (CCDF), which is authorized by the Child Care and Development Block Grant Act of 2014 and administered as grants to states and territories by the Administration for Children and Families (ACF). The California Department of Social Services (CDSS) is the State's CCDF Lead Agency and administers child care and development programs through its Child Care and Development Division.

The California State Preschool Program (CSPP) and certain other programs for preschool and school-aged children are administered by the California Department of Education (CDE) and are supported by State funding rather than by CCDF funds. The two departments (i.e. CDSS and CDE) coordinate on an ongoing basis to ensure that program policies and procedures are aligned to the extent possible.

California leverages CCDF funds to support a mixed-delivery system comprised of a variety of provider/program types, including licensed centers, licensed home-based family child care, and license-exempt family, friend, and neighbor care.

The federal government requires that states assess the adequacy of their subsidized child care reimbursement rates every three years, and that the State conduct a cost analysis to be considered as part of the rate setting process. There are two permissible approaches to doing a cost analysis: conducting a survey of current market rates for child care, and/or conducting an "alternative methodology" developed by the State, which may be a cost estimation model or a cost study.

A cost study involves gathering point-in-time data about providers' costs to operate a program. A cost estimation model is a tool that is informed by provider and program data that can run scenarios to estimate how different variables (ex. where the program is located, the ages of the children served, impact the cost of care, etc.). The alternative methodology approach allows states to set rates that are informed by the actual cost to deliver services, rather than the price that parents can afford to pay as evidenced by market rates. Any alternate methodology used in lieu of a market rate survey must be approved in advance by the ACF.

California has historically conducted market rate surveys to inform its CCDF State Plans. The State's approach to setting reimbursement rates for child care and development subsidies has evolved over many years and reflects the layering of new policies atop old as well as incremental changes to improve the system over time.

In recent years, the vision of moving to a single rate structure informed by a cost-based alternative methodology and encompassing the entirety of California's mixed-delivery system has been broadly endorsed by the child care and development and early learning fields, the State Legislature, and multiple advisory bodies. In a reflection of that consensus, CDSS sought and secured federal pre-approval to utilize an alternative methodology to update its cost analysis for the Federal Funding Year (FFY) 2025-2027 CCDF State Plan.

Through the adoption of Assembly Bill (AB) 116 (Chapter 41, Statutes of 2023), the Governor and Legislature committed the State to pursuing that process. Senate Bill (SB) 140 (Chapter 193, Statutes of 2023) approved the 2023-2025 Memorandum of Understanding (MOU) between the State and the Child Care Providers United (CCPU) union, which represents family child care providers in California, thereby codifying key milestones in the MOU related to the development and implementation of a single rate structure informed by an alternative methodology.

The trailer bill SB 163 (Chapter 73, Statutes of 2024) was adopted to enact early learning and child care provisions for the Fiscal Year (FY) 2024-2025 State Budget. Section 20 of SB 163 amended Welfare and Institutions Code (WIC) Section 10227.6(g) to require regular reporting by CDSS to the Legislature on progress towards implementing new reimbursement rates set under the alternative methodology. The relevant portion of SB 163 reads as follows:

(g) (1) Within 60 days of federal approval of the single rate structure utilizing the alternative methodology in the state plan, the department shall provide the Assembly and Senate Budget Committees and the Legislative Analyst's Office with a report that outlines the implementation components for the approved single rate structure. For a period of 30 days, the Legislature shall have the opportunity to review and provide feedback regarding draft guidance for implementation of policies. The report shall include all of the following:

(A) The department's plan to set new reimbursement rates under the alternative methodology by no later than July 1, 2025.

(B) The estimated costs and estimated timelines associated with the implementation components of the approved single rate structure, including, but not limited to, state operations resources, technology and infrastructure changes, and any regulatory or statutory changes necessary to implement the approved single rate structure.

(2) The department shall, beginning October 1, 2024, until January 1, 2026, provide the Assembly and Senate Budget Committees and the Legislative Analyst's Office with quarterly updates on the implementation of the new reimbursement rates set under the alternative methodology. The quarterly updates shall include any changes to the information provided in the report described in paragraph (1).

This is the first Quarterly Report published pursuant to the requirements of SB 163. As such, it provides both progress updates and a look ahead at the rate setting and implementation processes.

Previous reports to the Legislature related to rate reform and the alternative methodology process can be found on the [CDSS Rate Reform and Quality webpage](#).

Looking Back: Progress Updates

Since the last report to the Legislature on child care rate reform was issued in May 2024, the Department has continued to make progress on the alternative methodology process and the rate reform agenda.

First, the Department submitted its 2025-2027 CCDF State Plan to the ACF on July 1, 2024. States and territories receiving CCDF funds must prepare and submit a triennial plan detailing how the funds will be allocated and expended in conformance with legislative requirements, regulations, and other guidance. The CCDF State Plan is how states apply for the federal block grant and is the primary mechanism the ACF uses to determine state compliance with the requirements of related federal law and regulations.

California's 2025-2027 Plan is posted on the [CDSS website](#). Section 4 of the plan contains an update on the alternative methodology process and timeline, including a plan to set new rates using an alternative methodology by July 1, 2025. Because the alternative methodology process is still underway, some information, such as the new rates themselves, are not yet reflected. The Department will submit an update to ACF by July 1, 2025, which will include the new payment rates informed by alternative methodology. Per [Section 20 of SB 163](#), if the new reimbursement rates informed by alternative methodology "do not take effect on July 1, 2025, the department shall provide the Legislature with a timeline for transitioning from the rates that are in effect on July 1, 2025, to the new rates."

Second, between May and August 2024 the Department conducted a series of focus groups with child care center representatives to gather additional feedback on the cost model. One focus group was comprised of thirteen representatives of private licensed child care centers that participate in voucher-based state child care programs, and a second focus group was comprised of thirteen center-based programs that directly contract with the state to provide child care and development and state preschool services. Staff from CDE also attended the focus groups. A summary of focus group feedback was presented at a public meeting of the Rate and Quality Advisory Panel (RQAP) in September. The RQAP meeting materials can be found on the [CDSS Rate Reform and Quality webpage](#).

Finally, the Department has been working with experts at the national research organization Child Trends to develop an evaluation framework for rate reform, which will be finalized by late 2024 and subsequently reported on at a public meeting of the RQAP.

Looking Ahead: Rate Setting and Implementation

As noted in the Introduction section of this report, State statute codifies process milestones and a timeline for carrying out the alternative methodology process. The State is now at the Rate Setting and Implementation step of the process, as seen in the infographic below.



The [WIC Section 10227.6](#) and the [2023-2025 MOU between the State and CCPU](#) specify the alternative methodology timeline in greater detail. The specific steps and timelines associated with the rate setting and implementation of the new single rate structure are as follows:

- *Within 60 days of federal approval of the CCDF State Plan:* The Department shall provide the Assembly and Senate Budget Committees and the Legislative Analyst’s Office with a report that outlines the implementation components for the approved single rate structure.
- *For a period of 30 days:* The Legislature and CCPU shall have the opportunity to review and provide feedback regarding draft guidance for implementation of policies.

- *90 days subsequent to ACF approval:* Per the MOU, the State and CCPU will re-open negotiations to restructure the current subsidy reimbursement rates and Cost of Care Plus Rate, and the associated funding, for family child care providers, consistent with the ACF-approved single rate structure. Certain aspects of rate implementation will also be negotiated. The Department anticipates that rate setting for non-represented provider/program types will occur through the State's FY 2025-2026 budget development process, concurrent with and informed by rate negotiations for family child care providers.
- *By no later than July 1, 2025:* The Governor and the Legislature shall establish reimbursement rates based on the alternative methodology. If the new reimbursement rates do not take effect on July 1, 2025, the Department shall provide the Legislature with a timeline for transitioning from the rates that are in effect on July 1, 2025, to the new rates based on the alternative methodology.

The WIC Section 10227.6(i)(2) also specifies that any temporary reimbursement rates established as part of the transition timeline must be, at minimum, equivalent to the reimbursement rates that were in effect on June 30, 2024, inclusive of the Cost of Care Plus rates.

The ACF approval of the CCDF State Plan is still pending. Approval is anticipated on or around the publication date of this report and will trigger the next steps bulleted above.

Neither state nor federal statute specifies a date by which the new rates informed by alternative methodology must take effect. The Department's intent is to implement in FY 2025-2026, or as soon as possible. A more detailed update on the Department's plan to set new reimbursement rates under the alternative methodology by no later than July 1, 2025, and on the estimated costs and timelines associated with implementation of the single rate structure will be provided in the implementation report that is due within 60 days of ACF approval.

Conclusion

Implementing a single rate structure supports the State's vision of a more equitable, accessible, and high-quality child care system. Since receiving federal approval to pursue an alternative methodology process, the State has made significant progress on this strategy. The State and CCPU entered into a historic successor MOU. The Department conducted a detailed study of the cost of care in California and used it to inform the development of a cost estimation model. The Rate and Quality Systems Structure Review Joint Labor Management Committee approved the elements of the new single rate structure.

These accomplishments have been and will continue to be informed by a robust public engagement process. For example, the Early Childhood Policy Council (ECPC) continues to review and provide advisement on the alternative methodology approach and rate reform at its quarterly public meetings, as does the RQAP, providing

opportunities for families, child care providers, educators and other experts from the field to influence the future of child care and development in California.

With its vision for moving to a single rate structure informed by a cost-based alternative methodology encompassing the entirety of California's mixed-delivery system and significant progress to date, the State is well positioned to move into rate setting and implementation.